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SUBJECT: AUSTRIA'S IMPROVED 2007/2008 GROWTH OUTLOOK

REFS: A) VIENNA 0979 B) VIENNA 1715

Summary

¶1. Austria's two leading economic institutes recently again revised GDP growth forecasts upward for 2007 and 2008. Growth in 2007 should be 3.1-3.2% and 2.5-2.8% in 2008. Strong exports, a robust investment cycle and improving private consumption are driving growth. Austria's unemployment rate should drop to 4.3% in 2007, but will probably remain stagnant at that level during 2008-2011 due to expected lower economic growth. Despite Austria's excellent current economic performance, the economic institutes have urged the GoA to implement initiatives to raise economic growth and reach full employment, to continue efforts to balance the budget, and to introduce additional wage flexibility. End Summary.

2006 Growth Figure Revised Upward to 3.3%

¶2. Latest revised figures from Statistics Austria indicate a real GDP growth rate of 3.3% in 2006, higher than the EU-27 average of 3.0% and the Euro area average of 2.7%. In nominal terms, Austria's GDP reached Euro 257.9 billion. Per capita GDP was Euro 31,140 in ¶2006.

2007 - Over 3% Growth, 2008 - Still Dynamic

¶3. The Austrian Institute for Economic Research (WIFO) and the Institute for Advanced Studies (IHS) recently presented revised, upgraded projections for 2007 and 2008. For 2007, WIFO now projects growth of 3.2%, IHS of 3.1%. The growth is based on broad and balanced demand - strong exports, a robust investment cycle and continued improving private consumption. Projections for 2008 are for slightly lower growth of 2.5-2.8% because of the expected slowing of the European economy, the weak U.S. economy and a slow-down in China, although the impact of the latter on Austria is limited. The higher IHS growth forecast for 2008 results from more optimistic assumptions about the U.S. economy and its direct and indirect effects via Germany on the Austrian economy.

¶4. Both institutes upgraded their projections because of the Austrian economy's consistently strong dynamics, growing optimism from Austrian business, continued strong growth in the Euro area and vibrant growth in the key Austrian markets in Central and Eastern Europe. According to WIFO Director Karl Aiginger und IHS Director Bernhard Felderer, the economy is currently doing better than expected. Growth in 2008 will be slightly weaker, mainly because of

cyclical reasons. There are no signs of a downturn or major external shocks on the horizon.

Assumptions for Growth Forecasts

15. The institutes based their revised 2007/2008 forecasts on the following assumptions:

- U.S. economic growth of 1.8-2.3% in 2007 and 2.1-3.0% in 2008;
- Euro area growth of 2.5-2.9% in 2007 and 2.3% in 2008;
- EU-27 growth of 2.8-3.1% in 2007 and 2.5% in 2008;
- German growth of 2.5-2.8% in 2007 and 2.2-2.5% in 2008;
- oil prices of \$62-64 per barrel in 2007 and \$64 in 2008; and
- dollar/Euro exchange rates of 0.75-0.76 in 2007 and 0.71-0.77 in 2008.

Unemployment Down to 4.2-4.3%, No Further Improvements

16. The robust economic growth continues to have a noticeable impact on the labor market. The number of full-time jobs will rise by 1.95% or 60,000 in 2007. The number of unemployed should decline by 15,000, with the unemployment rate easing to 4.3% from 4.8% in 2006.

Projected lower economic growth in 2008 will not produce further improvements on the labor market. The unemployment rate will remain at 4.2-4.3% in 2008. Since mid-term forecasts indicate average economic growth of 2.5%, economists expect the unemployment rate will remain at that level until 2011.

Problem Areas the GoA Should Address

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17. Despite the current excellent economic performance, Aiginger and Felderer outlined several areas the GoA should concentrate on to keep the Austrian economy competitive:

-- The GoA should pursue its plans outlined in the coalition program to implement initiatives to raise economic growth and reach full employment by 2010 through innovation, closing infrastructure gaps, administrative reform, education and training.

-- The GoA should place additional emphasis on balancing the budget, primarily by cutting budget expenditures. Aiginger and Felderer acknowledged the commitment of Vice-Chancellor and Finance Minister Wilhelm Molterer to only use windfall tax revenues for deficit reduction, not for additional spending programs. Total public sector deficit will be 0.6-0.7% of GDP in 2007 instead of the budgeted 0.9%, and at 0.6% in 2008 instead of the budgeted 0.7% (ref B).

-- The GoA and social partners (labor unions and business associations) should work towards introducing new flexible elements in the wage structure, such as merit pay, incentive pay, premiums, profit shares, and employee shares. Aiginger and Felderer urged a somewhat more liberal wage policy, noting that several years of robust economic growth and excellent business profits have led to only modest increases in inflation-adjusted per capita net wages.

18. Statistical Annex

Austrian Economic Indicators
(percent change from previous year,
unless otherwise stated)

	WIFO project. 2007	IHS project. 2007	WIFO project. 2008	IHS project. 2008
Real terms:				
GDP	3.2	3.1	2.5	2.8

Manufacturing	6.7	n/a	3.7	n/a
Private consumption	2.2	2.3	2.1	2.2
Public consumption	1.7	1.9	1.8	2.5
Investment	6.0	5.6	3.8	4.1
Exports of goods	8.7	8.5	7.2	8.3
Imports of goods	8.4	8.5	6.6	7.8

Nominal Euro billion
equivalents:

GDP	270.0	269.3	281.4	281.3
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Other indices:

GDP deflator	1.9	1.8	1.7	1.6
Consumer prices	1.8	1.8	1.9	1.6
Unemployment rate	4.3	4.3	4.2	4.3
Current account (in percent of GDP)	3.8	n/a	4.1	n/a
Exchange rate for US\$ 1.00 in Euro	0.75	0.76	0.71	0.77

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